

THE BILLION STANDARD

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Banking, NPAs and RBI

(Also written by Deepak Phatak)

[Google](#)'s letter to the US Federal Reserve two months ago asking them to learn from Indian digital payments must be an unfamiliar feeling for the central bank. Indian regulators, used to lectures and advocacy from global firms and diplomats peddling their models — not intellectually different from Thomas Macaulay's quip in 1835 that a single shelf of a good European library was worth the whole native literature of India — should be proud of reaching our target of a billion monthly digital payments. We make the case that digital payment transactions on the Universal Payment Interface (UPI) platform rising from 0.1 million in October 2016 to 1.3 billion in January 2020 represents the magic of entrepreneurs, nonprofits and policymakers working together. And gives us a new target — a billion transactions a day.

India was long a financially excluded nation — only 17 per cent of Indians had a bank account in 2011. The World Bank suggests it would have taken 50 more years for 80 per cent of Indians to get a bank account at the pre-2011 speed. Yet, we reached that milestone in 2018. How? A magical combination of political will (Jan Dhana Yojana and [Aadhaar](#) embedding), a proactive central bank (creating a non-profit market participant entity and leveling the playing field between non-banks and banks), and a technology stack with three layers (identity, payments, and data).

India's payment revolution comes from a clear vision (shifting the system from low volume, high value, and high cost to high volume, low value, low cost), a clear strategy (regulated and unregulated private players innovating on top of public infrastructure) and trade-offs balanced by design (regulation vs innovation, privacy vs personalisation, and ease-of-use vs fraud prevention). Consumers wanted a payment experience that was mobile-first, low-cost, 24/7, instant, convenient, interoperable, fintech friendly, inside banking, and safe. This was UPI, a platform operated by the entrepreneurial nonprofit National Payments Corporation of India. UPI created interoperability between all sources and recipients of funds (consumers, businesses, fintechs, wallets, 140 member banks), settled instantly inside the central bank in fiat money (state-issued money declared by the sovereign to be legal tender) and blunted data monopolies (big tech firms have strong autonomy but weak fiduciary responsibilities over customer data). A new paper by the Bank for International Settlements ('The design of digital financial infrastructure: lessons from India') suggests that India demonstrates how "a central bank can be proactive and equal partners with private sector counterparts when it comes to fostering technological innovation in finance".

UPI offers five policy lessons. First, how the India stack — interconnected yet independent platforms or open APIs — are a public good that lowers costs, spurs innovation, and blunts the natural digital winner-takes-all. Replicating this in education, healthcare, and government services are likely to be a harbinger of large scale multi-domain collaborative innovation. Second, collaboration can create ecosystems that overcome the birth defects of its constituents — the execution deficit of government, the trust deficit of private companies, and the scale deficit of nonprofits. Third, complementary policy interventions are important. Demonetisation and GST are changing the stories that firms and individuals tell themselves around cash and informality. Fourth, human capital and diversity matter. This revolution needed career bureaucrats to partner with academics, tech entrepreneurs, venture capitalists, global giants and private firms. The final lesson is that India doesn't need to be Western or Chinese to be modern. If our policymakers had copied Alipay or US banks, we wouldn't have leapfrogged their birth

defects.

Google's letter to the Federal Reserve counters powerful lobbying by US banks against the "FedNow" payment system that will undermine their supernormal profits. FedNow will do far less than UPI, but its launch delay supports the thesis of the new book, *The Great Reversal*, by Thomas Philippon that American capitalism, once a model for the world, is giving up on healthy competition. Many sectors are more concentrated than 20 years ago, dominated by fewer and bigger players who lobby politicians aggressively to protect and expand their profit margins. But capitalism without competition — India has seen that movie before — hurts growth, investments, productivity and wages.

There is more work to be done. The central government must deadline digitising all its payments. The RBI must implement the 100-plus action items arising from its own Vision 2021 document and the Nandan Nilekani Committee for Deepening Digital Payments. It must also make UPI and RuPay fit for use in our \$70 billion inward remittances that currently come through exploitative financial institutions which don't have clients but hostages. More importantly, the RBI must replicate the core design of UPI — fierce but sustainable private and public competition — in bank credit because our 50 per cent credit-to-GDP ratio is one of the reasons India is poor. China's 300 per cent is the wrong number, but reaching the OECD average of 100 per cent needs the RBI to do many things — raising its human capital and technology game in regulation and supervision, catalysing an ecosystem for lending against the rapidly expanding digital exhaust of small firms and individuals, issuing more private bank licences, facilitating management changes in old private banks with market caps that signal questions about book value, and shepherding a governance and human capital revolution at PSU banks (their risk-weighted assets being lower than two years ago despite a capital injection of Rs 2.5 lakh crore should be unacceptable).

Converting the collective independence our citizens got in 1947 to individual freedom surely involved universal financial inclusion. The gap between this aspiration and reality was not a lie but a disappointment because our capital got handicapped without labour and our labour got handicapped without capital. Change has begun — the RBI, the finance ministry, and many individuals deserve our gratitude and duas for a billion digital payments a month. We now ask you for a billion digital payments a day.

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